

[REDACTED]

[REDACTED]

[REDACTED]

JAN 28 1987

Dear Sir or Madam:

We have considered your application for recognition of exemption from Federal income tax under section 501(c)(6) of the Internal Revenue Code.

The information submitted indicates that you (PPO) were incorporated under the State of [REDACTED] Nonprofit Corporation Act on [REDACTED]. The objectives for which you were formed are to improve the conditions for the practice of chiropractic medicine by facilitating the delivery of efficient, cost effective health care services by qualified providers; to promote the common interest of the chiropractic profession by fostering the development of the highest standards of care and treatment of patients and the effective delivery of chiropractic services; and, to otherwise engage in any activity which is permissible for an organization which qualifies under section 501(c)(6) of the Internal Revenue Code of 1954.

You state that to accomplish your purposes, you will negotiate with insurance carriers, self-insured and other purchasers of health care to provide health care services with the objective of achieving cost containment while maintaining quality of care.

The Physician Agreement you enter into with physicians who wish to participate in your program contains the following provisions:

- a) Physician agrees and hereby authorizes PPO to negotiate directly with insurance companies, self-insured groups, and other purchasers of health benefits on behalf of Physician and to enter into contracts for the provision of chiropractic care to be furnished by Physician at lower than usual fees.
- b) PPO agrees to assume marketing and administrative responsibilities for: selling Physician services to Purchasers at agreed upon percentage of the approved Physician fee schedule established for the geographic region in which Physician conducts business; Submit all claims for payment,

Code	Initiator	Receiver	Reviewer	Reviewer	Reviewer	Reviewer	Reviewer
Surname		[REDACTED]					

after review for quality care and proper utilization of services, and thereafter process all Physician claims and collect payments from Purchasers; Upon receipt of payments, PPO will forward such payments to Physicians less stated/agreed upon administrative fee.

Section 501(c) of the Code describes certain organizations exempt from Federal income tax under section 501(a) and reads, in part, as follows.

"(6) Business leagues, chambers of commerce, real estate boards, boards of trade, ***, not organized for profit and no part of the net earnings of which inures to the benefit of any private shareholder or individual."

Section 1.501(c)(6)-1 of the regulations provides as follows:

"A business league is an association of persons having some common business interest, the purpose of which is to promote such common interest and not to engage in a regular business of a kind ordinarily carried on for profit. It is an organization of the same general class as a chamber of commerce or board of trade. Thus, its activities should be directed to the improvement of business conditions of one or more lines of business as distinguished from the performance of particular services for individual persons. An organization whose purpose is to engage in a regular business of a kind ordinarily carried on for profit, even though the business is conducted on a cooperative basis or produces only sufficient income to be self-sustaining, is not a business league.***"

286-2, 75

Revenue Ruling 86-27, Internal Revenue Bulletin 1986-12, page 5, held that an individual practice association that provides health services through written agreements with health maintenance organizations does not qualify for exemption from Federal income tax as a social welfare organization under section 501(c)(6). The organization's primary activities are to serve as a bargaining agent for its members in dealing with HMOs, and to perform the administrative claims services required by the agreements negotiated with the HMOs. It is paid a capitation amount by each HMO based on the number of HMO subscribers entitled to receive medical services. Members bill the organization for services rendered to the HMO subscribers and accept claims payment for the organization as payment for services rendered. Members agree to reimbursement by the organization on a fee-for-services basis according to a fee schedule established by the board of directors of the organization. The fee schedule reflects the usual customary fees charged by the members-physicians in their private medical practice.

[REDACTED]

Based on the available information, we hold that you do not qualify for exemption from Federal income tax under section 501(c)(6) of the Code because you are operating for the benefit of your members and in a manner similar to organizations carried on for profit. You are but a slight variation of the organization described in Revenue Ruling 86-98 (supra). You negotiate with insurance carriers, self-insured groups, and other purchasers of health services while it negotiated with HMOs; you both assumed marketing and administrative responsibilities and were paid for the services; you both collected fees and reimbursed the physician members. You are obviously operated for the benefit of your members by negotiating with health services purchasers to provide them access to a large group of patients.

In addition, because the billing and collection services provide an economy or convenience to your member relating to the operation of their private medical practices, you are primarily performing particular services for your members. Even though your services were offered to all chiropractors in the State of [REDACTED], your benefits merely flow to those who participate in your program. Therefore, you do not better conditions for all chiropractors in the State, but, instead, are devoted to maximizing fees for your members. You are not operated as a business league within the meaning of section 1.501(c)(6)-1 of the regulations.

You indicated on the application and in Mr. [REDACTED]'s [REDACTED], letter that you are financially supported by members dues and assessments and that all fees will be paid directly to the members. This does not agree with the physician agreement you submitted. However, even if you do collect fees, we hold that the other services for the members would still preclude exemption.

You are required to file an annual Federal income tax return on Form 1120.

If you do not agree with these conclusions, you may, within 30 days from the date of this letter, file in duplicate a brief of the facts, law, and argument that clearly sets forth your position. If you desire an oral discussion of the issue, please indicate this in your protest. The enclosed Publication 892 gives instructions for filing a protest.

If you do not file a protest with this office within 30 days of the date of this report or letter, this proposed determination will become final.

[REDACTED]

If you agree with these conclusions or do not wish to file a written protest, please sign and return Form 6018 in the enclosed self-addressed envelope as soon as possible.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

Sincerely,

[REDACTED]
District Director

Enclosures:
Form 6018
Publication 892